First-Time Homebuyer Tax Credit

Available Through the Mortgage Credit Certificate Program

Lender Guide

What should I tell my borrower about the MCC Program?

1. The Mortgage Credit Certificate (MCC) Program allows you to claim a percentage of the mortgage interest you pay each year as a federal income tax credit, reducing your tax bill by up to $2,000 per year. **It's like getting more than 1/3 of the interest you pay on your mortgage back every year.**

2. **An MCC is *more valuable* than the 2009-2010 First-Time Homebuyer tax credit** because you can claim the tax credit for up to 30 years.

   2009-2010 First-Time Homebuyer Tax Credit
   One-time $8,000
   v.
   MCC Program
   Up to **$2,000/year** for up to **30 yrs**

3. **IMPORTANT: The MCC tax credit only benefits you if you have a federal income tax liability to offset.** It's like a gift card to the IRS—it's only valuable toward your federal income tax bill.

4. **You can still take the Mortgage Interest Tax Deduction.** The MCC allows you to upgrade some of your mortgage interest from a tax deduction to a tax credit, but you can still claim the rest as a tax deduction. Simply reduce the mortgage interest deduction by the tax credit amount.

5. **The MCC can increase your refund** (or reduce amount paid in at tax time) or you can **use the MCC to increase your take-home pay**. To use the MCC to increase your take-home pay, adjust your tax withholdings on your W-4 to account for your reduced tax burden.

FAQs

Q: Can my borrower get an MCC with a Start Up loan?
A: No, but the MCC Program offers an affordable Minnesota Housing first mortgage loan that is separate from Start Up.

Q: What if the MCC tax credit amount ($2,000 maximum) is less than their federal income tax liability?
A: Your borrower may carry the unused portion of the tax credit forward for up to three years, subject to certain limitations.

Q: If they would already be getting a refund would the MCC increase their refund?
A: Yes, if they have a tax liability.

Q: Does changing tax withholdings from paychecks change income tax liability?
A: No, adjusting tax withholdings only impacts *when* they pay the tax not how much tax burden they have.

Q: Can they count the interest on the Monthly Payment Loan toward the MCC credit?
A: Yes.

How do I know if my borrower is a good fit for the MCC Program?

1. What is their federal income tax liability?

A borrower must have tax liability to benefit from the tax credit. Disregard any refund—refunds do not tell you anything about tax liability.

Find last year's income tax liability by looking at one line of their tax returns:

• 1040A: Line 35	35 Subtract line 34 from line 28. If line 34 is more than line 28, enter -0-. This is your **total tax.**	35
• 1040 EZ: Line 10	10 **Tax.** Use the amount on **line 6 above** to find your tax in the tax table in the instructions. Then, enter the tax from the table on this line.	10
• 1040: Line 61	61 Add lines 55 through 60. This is your **total tax** . . . . ▶	61

What does this number tell me?

- Large number (tax liability): Dollar-for-dollar reduction by tax credit amount up to $2,000, and likely a fit for MCC
- Zero or very small number (tax liability): Little or no tax savings and likely a better fit for Start Up (unless tax circumstances likely to change – see step 2)

2. Do they expect a significant change in tax circumstances?

Even a borrower with $0 income tax liability right now may be a good MCC candidate in the long-run if their income tax liability will likely increase significantly in the near future.

> Example: A student whose earning potential will increase with their first post-graduation job may benefit from an MCC because their tax liability will rise significantly in the near future.

3. What kind of downpayment and closing cost loan do they need?

The MCC program includes an optional Monthly Payment Loan for downpayment and closing costs. They'll make monthly payments on this loan for 10 years. If they need a downpayment and closing cost loan without monthly payments, check out Start Up!

4. Advise them to consult a tax professional.

You don't have to be a tax expert. If it looks like an MCC might be a good fit, advise your borrower to consult a tax professional. **A tax professional can advise whether an MCC would save them money after considering all anticipated changes—including homeownership.** Homeownership will likely reduce their tax liability due to the mortgage interest deduction.

Minnesota Housing does not give out tax advice. We recommend that borrowers consult a tax professional when calculating future income tax liability.

Borrower not a good fit for an MCC?

Check out the **Start Up** program for first-time homebuyers.

Affordable mortgage with three downpayment/ closing cost loan options available.